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SUBJECT: AIR FRANCE TRAFFIC SAGS, SHIFT IN BUSINESS PLAN

1. (U) Summary. Air France-KLM is feeling the economic downturn: lower capacity utilization, steadily declining passenger traffic, and cargo business stabilized at a reduced level. An audit showed 20 million euros (USD 29 million) missing from a fund managed by AF employee organizations; the GOF has asked for clarifications. Due to a 40 percent drop in market capitalization in 2009, AF-KLM is no longer included in the CAC40, the index of the Paris Bourse. End summary.

Traffic and Capacity Figures Released

2.(U) Air France-KLM' released December statistics January 11 confirming a decrease in passenger traffic for the twelfth consecutive month. Traffic dropped by 5.1 percent in December compared with a year earlier. The biggest downturn was for European traffic (6.4 percent) where capacity utilization averaged 67 percent. For North America, traffic fell by 5.2 percent and capacity utilization rose 2.5 points to 86 percent, following a measure to consolidate flights. AF-KLM's traffic fell by 2.3 percent in Africa/Middle East and by 4 percent in Asia.

3. (U) On the cargo side, AF-KLM announced an 8.5 percent decline after the airline took steps to reduce capacity by 19 percent. This was achieved essentially by consolidating loads to and from Asia.

Update on AF's Business Strategy

4. (U) Air France announced two new business strategies. In light of increased competition by low-cost competitors Ryanair and EasyJet, AF will reduce its medium-haul flights as of April 1 and eliminate some on-board services. In business and first-class, increased competition from European and Asian companies motivated AF to add features: new and bigger seats, better in-flight menus, improved reservation procedures, after-flight customer care, and the introduction of a class between first and business class - Premium Class. In a January 11 press report, Air France confirmed its goal to be "the European leader" in business class services by 2013-2014.

Audit Questions AF Employee Managed Fund

5. (U) A January 2010 audit of AF revealed that more than 20 million euros (USD 29 million) was missing from a fund managed by AF employee organizations. French Transport Minister Dominique Bussereau stressed in a January 11 interview that AF was not state-owned but a private company. However, the GOF is a shareholder (15 percent interest) and would like explanations at the earliest opportunity.

6.(U) Air France-KLM is feeling the economic downturn: lower capacity utilization, steadily declining passenger traffic, and cargo business stabilized at a reduced level. AF-KLM lost its place on the CAC40 - the top40 firms by market capitalization listed on the Paris Bourse; AF's market capitalization dropped by 40 percent in 2009. AF-KLM's share price has declined from 38 euros in 2007 (when it made the CAC40), to 11 euros in December 2009.

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